



Missouri Division of Finance

UPDATE

A Report of Missouri State Chartered Financial Institutions

Issue 04-1

January 2004

From . . .

Commissioner D. Eric McClure

Again we are proud to report that the citizens of our great State of Missouri have a safe and sound State banking system. Our banking and financial industry enjoyed a successful 2003 and we hope that 2004 will indeed be a year of rising prosperity for our state. As I write this, most of the economic indicators are looking favorable for 2004. For now, interest rates continue at historic lows, but will surely rise as our economic rebound hopefully intensifies. We will be closely watching the affect of rising interest rates on bank margins, bond valuations and the real estate market. The one "mad cow" discovery several weeks ago reminds me of how potentially fragile many of our industries are. Given the volume of cattle production in Missouri, this "mad cow" incident will certainly impact Missouri's economy in 2004 and is something we will continue to closely monitor.

A couple of months ago, our Division received its on-site accreditation review by the Conference of State Bank Supervisors (CSBS). The preliminary findings are favorable and we anticipate formal re-accreditation in the next few weeks.

We are pleased to announce our next Division of Finance Outreach dates for the fall of 2004. We will travel around the state and host five regional meetings, as we have done with bankers in the past, to exchange issues and concerns. The PRELIMINARY dates we have selected are listed below. Please mark your calendars and we will send out more specific information at a later date.

Sikeston, MO	October 13, 2004
St. Louis, MO	October 14, 2004
Kansas City, MO	October 19, 2004
Jefferson City, MO	October 21, 2004
Springfield, MO	October 27, 2004

I am pleased to announce that Dean McCracken has been promoted to Chief Examiner. Dean has a long and distinguished career with the Division and we are certain he will make many positive contributions to Missouri's safe and sound banking industry.

GENERAL USURY

Section 408.030 provides that the Director of Finance shall declare the quarterly market rate of interest each quarter, post it in accordance with Section 361.110 and publish it in appropriate publications. Said quarterly market rate for the period January 1, 2004 through March 31, 2004 shall be 8.0%; as an alternative, 10% may be used.

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REGULATORY HOT BUTTON

Information Security Risk Assessment

Financial institutions shoulder a significant burden concerning protection of customer information. The Interagency Guidelines Establishing Standards for Safeguarding Customer Information (Appendix B to Part 364 of the FDIC Rules and Regulations) address standards for developing and implementing administrative, technical, and physical safeguards to protect customer information. These guidelines required financial institutions to implement information security programs by July 1, 2001; however, recent information technology examinations disclose that there are still instances where institutions are criticized for inadequate or nonexistent information security programs.

The key component of an information security program is the maintenance of an ongoing information security risk assessment. Without an effective risk assessment, management cannot possibly ensure customer information is adequately protected from threats, either internal or external. The risk assessment process involves three phases: information gathering, analysis, and prioritizing responses. Additional elements are added with respect to vendors. Following is a brief summary of the three phases.

- ? Information Gathering
 - o Obtain listing of information system assets.
 - o Determine threats to information system assets.
 - o Identify organizational vulnerabilities.
 - o Identify technical vulnerabilities.
 - o Document current controls and security processes.
 - o Identify security requirements and considerations.
 - o Review and update risk assessment at least annually, or more frequently if material changes warrant.
- ? Analyze Information
 - o Characterize the institution's system.
 - o Identify and measure threats through creation and analysis of threat scenarios.
 - o Estimate likelihood that the identified threats will result in an actual event.
- ? Prioritize Responses
 - o Rank the risks identified in threat scenarios.
 - o Some risks may be deemed acceptable and not require a mitigation strategy.
 - o Other risks may require immediate action.
 - o Risks that warrant action should be addressed in the information security strategy.

Boards of directors are responsible for ensuring a satisfactory risk assessment program is maintained for their institutions. The above information is only an outline of the risk assessment process and is not intended to be all-inclusive. This information is explained in detail in the Information Security Booklet portion of the FFIEC IT Examination Handbook, which can be found on the FFIEC's web site at www.ffiec.gov. Each institution's board and management are encouraged to utilize this resource to help ensure a proper risk assessment program is implemented and maintained. Questions may also be directed to Senior Examiner Jerry Janes in our Jefferson City office.

CONSUMER CONCERNS

From time to time, a banker will ask "what consumer complaints does the Division receive about the banking industry?" The answer is that we get a variety of complaints, most of which break down into a limited number of broad categories:

✍ NSF FEES are right at the top of the list. The search for fee income has made bankers more aggressive about such fees and many go so far as to urge customers to use the overdraft protection they offer. Unfortunately, when that protection results in a fee being charged, many customers are less than happy. When asked if this is a legitimate complaint, we respond that the practice is legal, but also question whether the customer understood that the overdraft protection would cost \$20 per item.

✍ THE 2:00 BUSINESS CUTOFF is also discussed by this office with a number of bank customers each month. It seems that after every 3-day weekend we receive calls from customers who are confused by how a deposit made in the middle of the afternoon on Friday did not get posted to their account until the following Tuesday. This is further aggravated when a) the deposit was cash and/or b) when the bank posts Tuesday's checks against the account before crediting Friday's deposit. Again, all perfectly legal.

✍ POSTING CHECKS from the largest to smallest (or in whatever order the bank chooses) also results in calls from irate customers. This appears to be particularly grating when the customer figures out that if the checks had been paid in order starting from the smallest first, it would have resulted in one NSF fee instead of several. We explain that the UCC explicitly permits this practice.

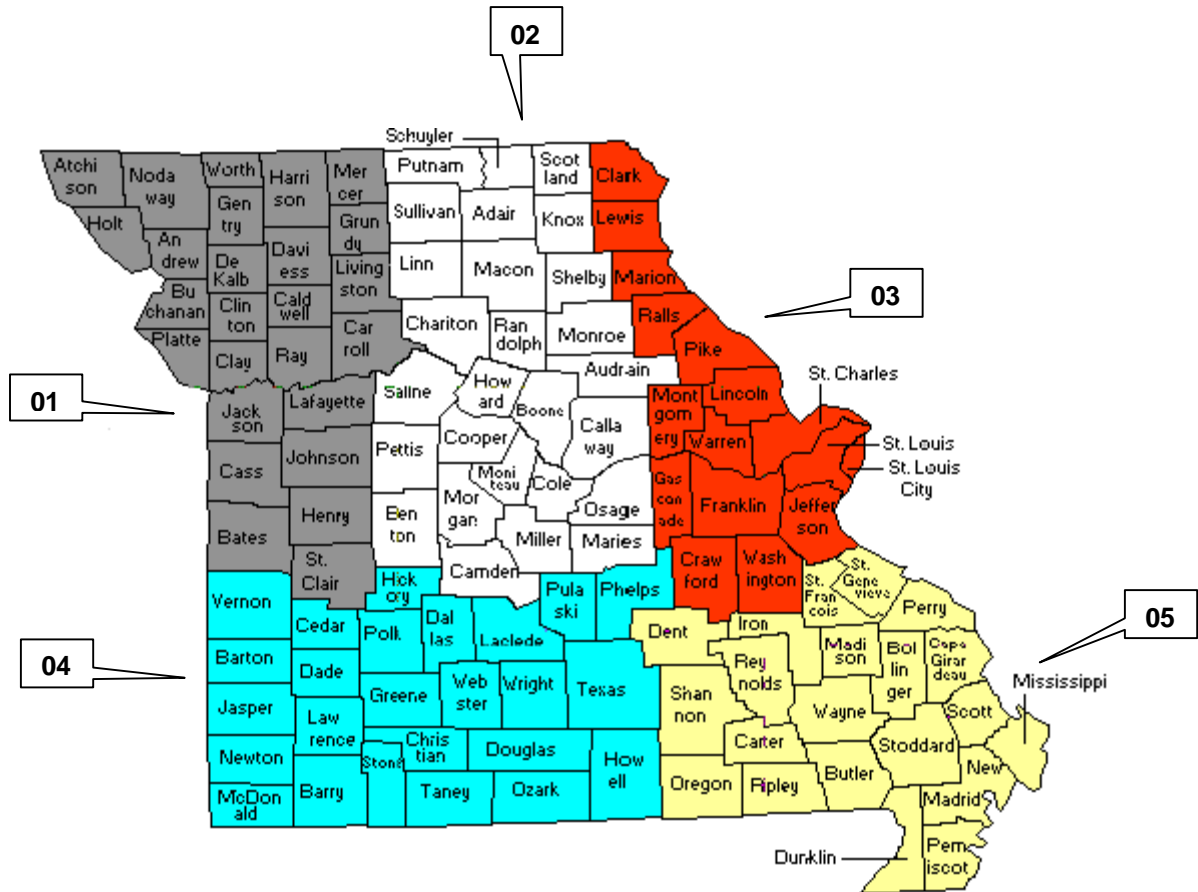
✍ THE DIFFERENT OWNERSHIP STRUCTURES of accounts and the customers' failure to understand these differences occasionally causes problems. For example, an older person might put an offspring or grandchild on an account not understanding that joint tenancy provides the newcomer immediate rights to the account whereas a payable on death provision would keep the interest "on hold" during the lifetime of the original owner. In some circumstances, it can be very hard for the account owner to understand this concept.

✍ PAID CHECKS are now rarely returned to customers, which leads to numerous complaints as customers experience more difficulty balancing their accounts.

✍ PROOF OF IDENTITY (and the degree of proof) required by bankers will cause more than a few citizens to complain. Citizens regard the bankers' level of caution far too high, particularly when the citizen (who is not a customer of the bank) is presenting an "on us" check.

✍ THE RIGHT OF RESCISSION is not fully appreciated by bank customers. We receive calls from borrowers complaining that the loan has closed but the bank continues to hold the funds. This can be especially troublesome for the borrower when a holiday weekend intervenes and a three day delay grows into five or six. We discuss provisions of Truth in Lending with the complainant and attempt to explain the underlying logic.

District Locations



01 - Kansas City District

John Smith, Supervisor
310 Northwest Englewood
Gladstone, Missouri 64118
816-467-7991

02- Central Missouri District

Bob Horne, Supervisor
3610 Buttonwood Drive
Columbia, Missouri 65201
573-884-6454

03 - St. Louis District

Dean McCracken, Supervisor
815 Charter Commons Drive, Suite 2
Chesterfield, Missouri 63017
636-207-8011

04 - Springfield District

Neil Stolte, Supervisor
1410 S. Kansas Expressway
Springfield, Missouri 65807
417-895-7545

05 - Southeast Missouri District

Connie Reid, Supervisor
203 North New Madrid Street
Sikeston, Missouri 63801
573-472-5266

State Banking Board Members:

Rodney L. Beard, Liberty, Missouri
M. Elizabeth Fast, Kansas City, Missouri
Glen (Brad) Williams, Eminence, Missouri
Linda G. Renner, St. Louis, Missouri
Robert M. Robuck, Jefferson City, Missouri

BANKING PERFORMANCE - 2003

Missouri state-chartered banks remain in sound overall condition. As of September 30, 2003, 298 state-chartered banks held \$51.7 billion in assets and \$41.6 billion in deposits. This represents asset growth of 14.9 percent and deposit growth of 13.0 percent since September 30, 2002 when 303 banks held assets and deposits of \$45.0 billion and \$36.8 billion, respectively. A large merger of an out-of-state bank into a Missouri state-chartered bank influenced growth for this period. This merger accounted for over \$3 billion of the asset growth during the past year. During the preceding twelve months, eight banks left the state banking system through merger or consolidation. Three new banks were chartered.

Net income in Missouri state-chartered banks increased by \$59 million for the first nine months of 2003 compared to the same period in 2002. Return on assets remains strong at the same level as the previous year. Only 4 banks, including a newly chartered institution, were unprofitable as of September 30, 2003.

Selected performance measurements of Missouri state-chartered banks include:

	Missouri State Banks			
	9/30/2003	9/30/2002	12/31/2002	12/31/2001
Interest Income/Earning Assets	5.58	6.30	5.93	7.22
Interest Expense/Earning Assets	1.73	2.41	2.23	3.54
Net Interest Income/Earning Assets	3.86	3.89	3.70	3.68
Loan Loss Provision/Average Assets	0.26	0.25	0.26	0.29
Net Income/Average Assets	1.18	1.18	1.09	1.05
Net Charge-offs/Loans	0.25	0.23	0.28	0.32
Non Performing Loans/Total Loans	1.81	2.15	2.03	2.42
Tangible Equity Capital/Assets	9.04	9.05	8.87	8.69
Loans to Assets	69.40	69.52	68.35	68.64
Earning Assets/Assets	92.08	92.80	92.06	92.66

REMINDER LIST

ANNUAL ACTIONS FOR STATE LAW

Division of Finance

State of Missouri

362.044 RSMo Annual Stockholders' Meetings

- ? Hold within the State of Missouri as prescribed in bank's bylaws. If absent such provision, must be held at the main banking house.
- ? Annual meeting conducted on date fixed in bylaws, or, if not so fixed, then on the second Monday of January (January 12, 2004).
- ? Refer to statute for notice/waiver requirements.

362.270 RSMo Organizational Meeting of Directors

- ? Hold within 30 days of the annual stockholders' meeting.
- ? Elect a director as chief executive officer. The CEO may be designated as president or other appropriate title.
- ? Elect one or more vice presidents.
- ? Elect other officers as required by the bylaws.

362.245 RSMo Board of Directors Qualifications

- ? Each director must be a U. S. citizen.
- ? Majority of directors must reside in Missouri or within 100 miles of the main banking house.
- ? All non-Missouri residents must file consent to service form with bank president, regardless of whether they live within 100 miles of main banking house.

362.250 RSMo Oath of Directors

- ? Every director must qualify within 30 days of election by filing an oath of office with the bank.
- ? Original signature oaths of office must be immediately transmitted to the Commissioner of Finance.

362.340 RSMo Employees to Give Bond

- ? Board shall require sufficient fidelity bonds on all active officers and employees.
- ? Bond must be approved by board and noted in the board minutes at least annually.
- ? Bonding amounts shall be reported to the Commissioner of Finance and are subject to approval.